

Los Alamos National Laboratory — Supplemental Instructions

Section: 15 Subcontracting by Negotiation

Subject: 15.6 Cost/Price Analysis

PURPOSE: This Supplemental Instruction (SI) provides guidance on cost or price analysis methods.

POLICY: The Laboratory shall obtain quality goods and services at fair and reasonable prices.

SCOPE: This SI applies to all subcontracts.

PROCEDURES:

**Documentation of
Price
Reasonableness**

The Laboratory has an obligation to determine that the price paid for every subcontract is fair and reasonable. The administrative expense of performing a cost analysis for subcontracts below \$500,000 is usually prohibitive and price analysis is preferred. Form 1301, *Price Analysis*, (Exhibit 13.1a), should be used to document price reasonableness. The requirements of SP 4.2, *Negotiation Memorandum*, shall apply for transactions of \$500,000 or more, or transactions less than \$500,000 when the transaction is so complex that, for example, cost analysis is required or terms and conditions are an issue.

**Price Analysis
Techniques**

Price analysis is based upon data obtained from sources other than the prospective subcontractor's proposal. It is a comparative process that concentrates on the bottom line, compares like or similar items, and considers market conditions and inflation or deflation. Any rational analysis that demonstrates the reasonableness of a price to be paid is acceptable. Most frequently, one of the following techniques will be used.

Adequate Price Competition — When adequate price competition exists, the procurement specialist should consider the prices to be reasonable unless he/she has evidence to the contrary.

Catalog or Published Price Lists — Established catalog prices are prices recorded in a catalog, price list, schedule, or other verifiable and established record, including computer-based media, that are regularly maintained by the manufacturer or vendor and are published or otherwise available for customer inspection. It is recognized that pricing may vary for the type of customer or quantity sold and that there may be an established price discount structure. The price lists must be consistently used by the manufacturer or vendor.

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PROCEDURES:

(cont.)

Market Prices — Market prices can be used when information exists, independent of that obtained from the offeror, that provides a reasonable indication of the prices accepted by the market. A market price requires that the item be sold in substantial quantities to the general public.

Historical Data — The procurement specialist may compare past prices or historical data for the same or similar items to the current proposed price to determine price reasonableness. There must be adequate rationale to explain the impact of inflation/deflation and differences between the item purchased and the price of a similar item. A previous price cannot be used to determine fair and reasonableness unless the prior purchase price is adequately documented as being fair and reasonable.

Independent Estimate — A proposed price may be compared with an independent University estimate if the estimate is based upon a realistic engineering analysis or if the estimator has used past prices and explained why those prices were picked. The University estimate must be derived from information independent of information obtained from potential offerors.

Value Analysis — Value analysis is usually used to supplement another methodology. Value analysis is the systematic and objective evaluation of the function of a product and its related cost. The characteristics of a product must be evaluated in terms of use and aesthetics, such as quality, appearance, packaging, etc. Theoretically, an item that does less has a lower value and, thus, should have a lower price. When both utility and aesthetics indicate a greater value, a price differential or higher price may be supported. However, when a price premium exists that is attributable to aesthetics only, instead of functional qualities, the differential or higher price is hard to justify.

Lack of Complete Price Justification

In some cases, the procurement specialist may be unable to fully justify a price as being fair and reasonable. In such an event, the procurement specialist should document his/her efforts to obtain a fair and reasonable price in the subcontract file and forward the file to his/her team leader for review.

Cost Analysis

Assistance — With the exception of the Complex Subcontracts Team, procurement specialists should obtain a preaward cost analysis from the cost/price analysts in Audits and Assessments (AA-3) for those subcontracts exceeding \$500,000 that require a cost analysis. The Complex Subcontracts Team may obtain

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support from the cost/price analysts, as needed.

PROCEDURES:
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Prenegotiation Objective — Before conducting negotiations, procurement specialists should establish prenegotiation objectives. With the exception of leases of real property and transactions utilizing previously agreed upon rates and/or prices, a prenegotiation review must be conducted for all transactions exceeding \$500,000 that involve cost analysis (see SI 1.2, *Delegation of Procurement Authority*).

RESPONSIBILITIES:
**Procurement
Specialist**

The procurement specialist must

- Determine and document the reasonableness of an offeror's proposed price using price analysis techniques;
- Ensure that the level of analysis is commensurate with the value of the subcontract; and
- Negotiate a lower price, when necessary and/or appropriate.